

Economic Indicators

Prepared by the Department of Finance • July 2014

*The purpose of this report is to keep policy makers apprised of changes in
the national and local economies that
the Montgomery County Department of Finance
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet
on the Montgomery County Web Page:
<http://www.montgomerycountymd.gov>*

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INTRODUCTION

This quarterly report provides an analysis of national, regional, and Montgomery County economic indicators for the second quarter of 2014 and fiscal year 2014. For this report, the fiscal year covers the July to June period. The data presented in this report are not seasonally adjusted to insure comparability among the national, regional and Montgomery County economic indicators. Since the data are not seasonally adjusted, the comparative periods for the quarterly data are the second quarter of this calendar year and the second quarter of calendar year 2013. The only data that are seasonally adjusted are the national real gross domestic product (GDP) and its components.

NATIONAL ECONOMY

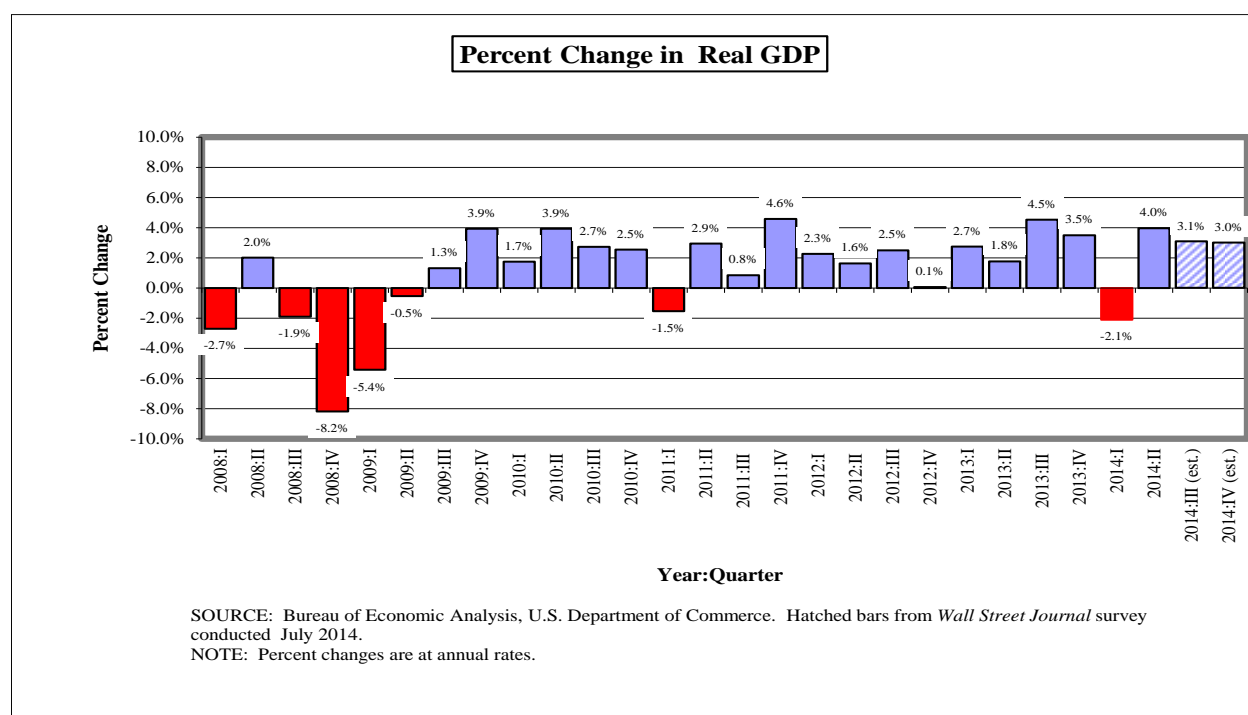
According to the advance estimate by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, real gross domestic product (GDP) increased at a 4.0 percent seasonally adjusted annual rate during the second quarter of 2014. That increase followed a decrease of 2.1 percent during the first quarter. Based on the July *Wall Street Journal* (WSJ) survey of fifty economists, the average of the responses expect economic growth to increase 3.1 percent during the current third quarter, and 3.0 percent during the fourth quarter of this year. The survey of economists expects the jobless rate to be at 5.9 percent by December and 5.5 percent by December 2015. The result of the survey of economists also shows that inflation, as measured by the consumer price index (CPI), will increase to 2.3 percent by December and decrease slightly to 2.1 percent by December 2015.

Subsequent to its July 29-30 meeting of the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System, the Committee stated that “growth in economic activity rebounded in the second quarter. Labor market conditions improved, with the unemployment rate declining further. However, a range of labor market indicators suggests that there remains significant underutilization of labor resources. Household spending appears to be rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow.” The Committee also stated that it “is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities and of rolling over maturing Treasury securities at auction.” However, the Committee also stated that “asset purchases are not on a preset course, and the Committee’s decisions about their pace will remain contingent on the Committee’s outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.”

Following its June meeting, the FOMC released its latest economic projections from 2014 to 2016. Real GDP is expected to increase between 2.1 and 2.3 percent in 2014, between 3.0 and 3.2 percent in 2015, and between 2.5 and 3.0 percent in 2016. The survey of economists by the *Wall Street Journal* estimates that real GDP will increase 2.9 percent in 2015 and 2.8 percent in 2016. However, both the FOMC projections and the WSJ survey were done before the second quarter real GDP was released by the BEA on July 30th which was above expectations.

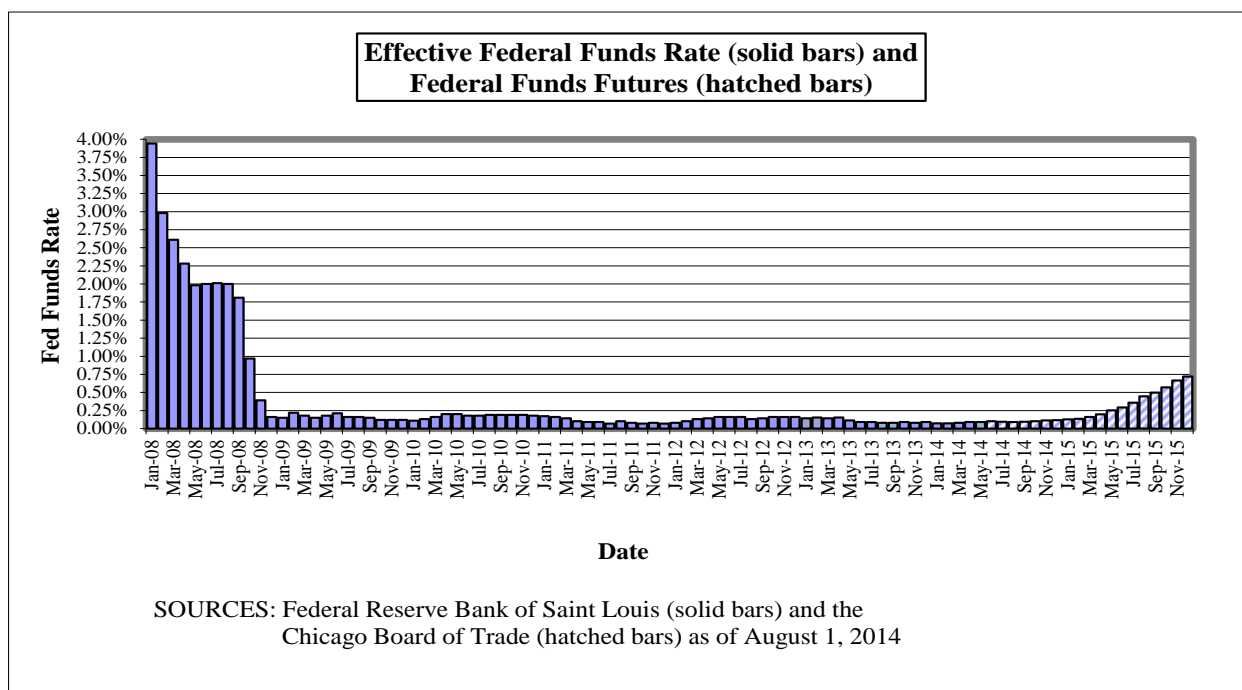
Both the *WSJ* July survey of economists and the economic projections by the FOMC in June suggest that unemployment will gradually decrease to 5.1-5.5 percent by the end of 2016. Inflation, as measured by the personal consumption expenditure (PCE) index, the preferred measure of inflation by the FOMC, will increase slightly to 2.0 percent by 2016. However, the survey of economists by the *WSJ* suggest that inflation, as measured by the consumer price index (CPI), will increase to 2.4 percent by December 2016.

Data released by BEA for the second quarter showed that the increase in real GDP was attributed to an increase in personal consumption expenditures ($\uparrow 2.5\%$ - up from the $\uparrow 1.2\%$ during the first quarter), private inventory investment which added 1.66 percentage points to real GDP, real non-residential fixed investment increased 5.5 percent compared to a 1.6 percent increase during the first quarter, residential fixed investment increased 7.5 percent compared to a decrease of 5.3 percent during the first quarter.



Real final sales of domestic product (real GDP less the change in private inventories) increased 2.3 percent in the second quarter compared to a decrease of 1.0 during the first quarter. Real final sales are a good measure of future production. If the growth rate in real final sales exceeds the growth rate for GDP over an extended period of time, it indicates strong demand and an expansion of the national economy. However, for the second quarter, the percent increase in real final sales (2.3%) was less than the percent increase in real GDP (4.0%) which suggests that future growth in real GDP through the remainder of 2014 may not be as strong as that which occurred during the second quarter as projected in the *WSJ* July survey for the third and fourth quarters.

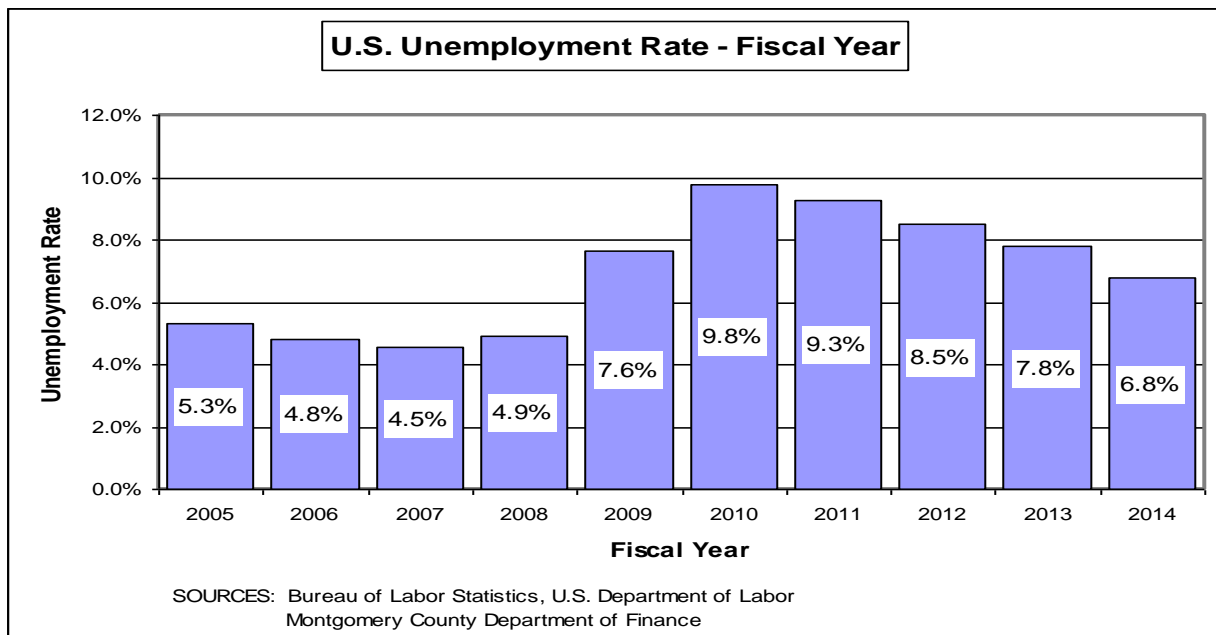
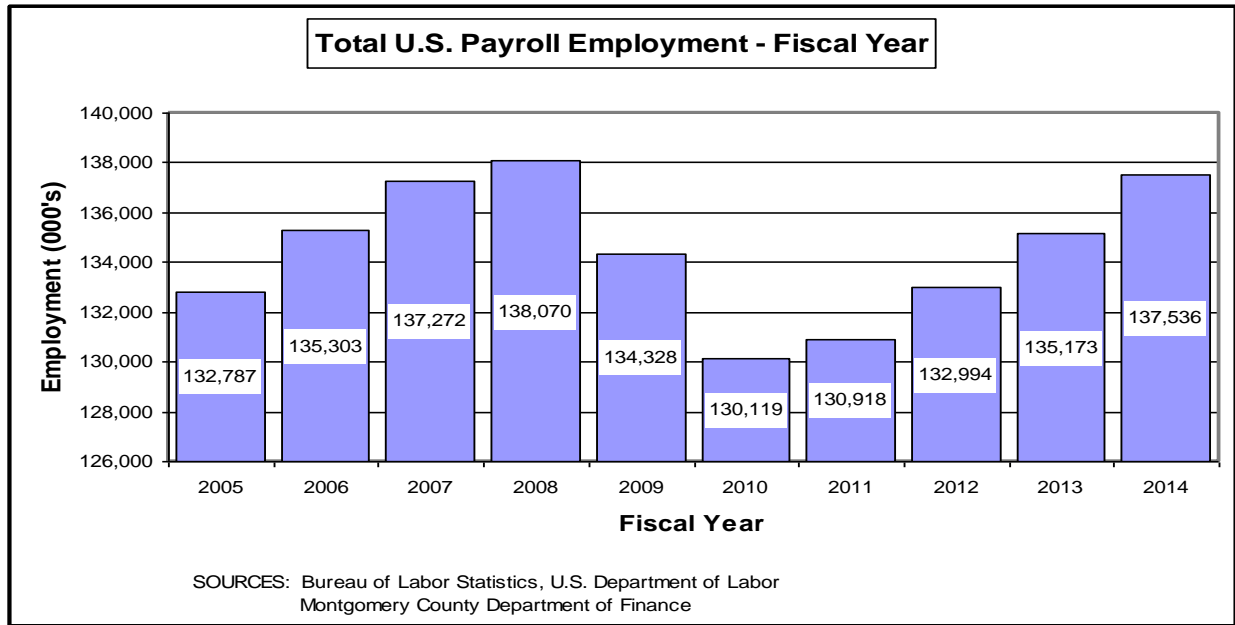
Since the July meeting of the FOMC, the futures market for the 30-day federal funds rate remains at or below the 0.25 percent level through May 2015. After that date, the futures market expects the rate to gradually increase to nearly 0.72 percent by the end of 2015. The July *WSJ* survey of 50 economists project on average that the federal funds rate will reach 1.10 percent by December 2015. Following its June meeting, the FOMC released its latest economic projections through 2016. The average of responses from four members of the Board of Governors and fourteen presidents of the Federal Reserve Banks indicated increasing the target federal funds rate to 1.20 percent in 2015 and 2.53 percent in 2016. While the increase in 2015 exceeds that of the federal funds futures market, it should be noted that all of the responses ranged from 0.25 percent to 3.00 percent while the majority of responses ranged between 0.25 percent and 1.25 percent.



Sales of existing homes decreased 4.5 percent during the second quarter compared to the second quarter of 2013. That decline is the second consecutive decrease since the third and fourth quarters of 2010 ($\downarrow 19.1\%$ and $\downarrow 18.8\%$, respectively). Median home prices for existing homes increased 4.6 percent during the second quarter of 2014 compared to a 12.2 percent increase during the same period in 2013. The inventory level increased 5.0 percent during the second quarter compared to the same quarter in 2013 and was the largest inventory level since the third quarter of 2012.

Monthly national employment, as measured by the survey of establishments (Current Employment Statistics), averaged 139.1 million (not seasonally adjusted) during the second quarter of this year – an increase of nearly 2.5 million or nearly 1.80 percent from the second quarter of 2013. Employment reached slightly more than 137.5 million in fiscal year 2014 – an increase of nearly 2.4 million or 1.75 percent from fiscal year 2013. However, employment in fiscal year 2014 was nearly 0.6 million below the peak employment in fiscal year 2008. The

unemployment rate during the second quarter stood at 6.1 percent (not seasonally adjusted) and a significant decline from the 7.4 percent in the second quarter of 2013. For fiscal year 2014, the unemployment rate declined a full percentage point from 7.8 percent in fiscal year 2013 to 6.8 percent in fiscal year 2014. The civilian labor force participation rate declined slightly during the second quarter to 63.0 (not seasonally adjusted) from the 63.5 rate during the second quarter of 2013.

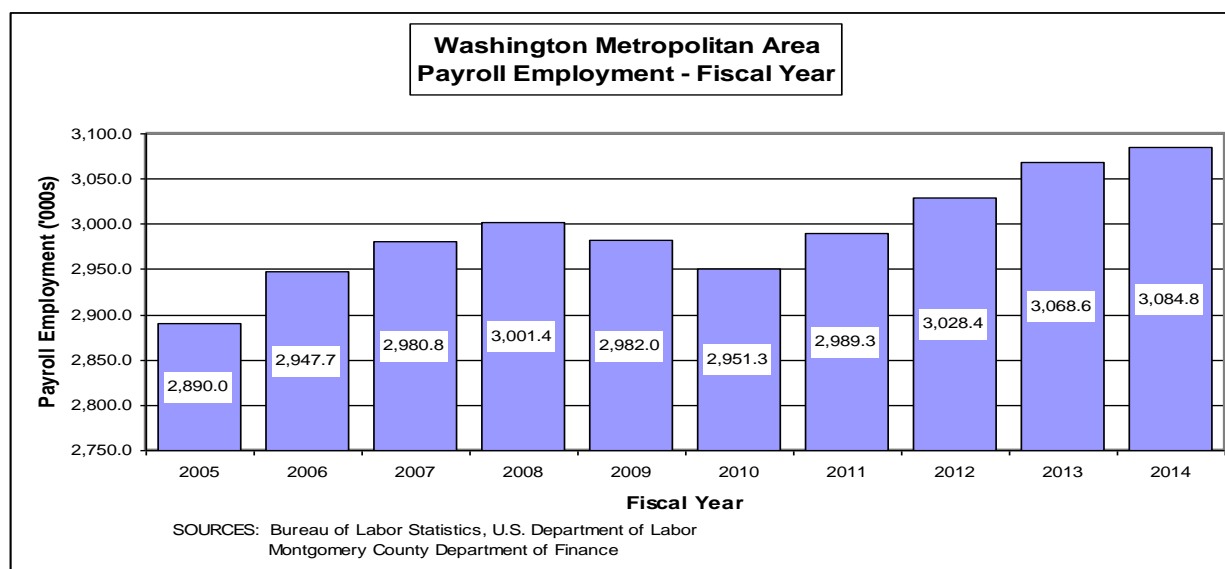


After experiencing weak performance during the first quarter of 2014, the stock market improved during the second quarter. All four stock market indices: the Dow-Jones Industrial Average ($\uparrow 2.24\%$); the Standard & Poor's 500 ($\uparrow 4.69\%$); the NASDAQ ($\uparrow 4.98\%$); and the Russell 2000 ($\uparrow 1.70\%$) experienced modest performance and, in the case of the S&P 500 and the NASDAQ, nearly 5 percent. However, during July, all four stock market indices experienced negative returns with the DJIA down 1.56 percent, the NASDAQ down 0.87 percent, the S&P 500 down 1.51 percent, and the Russell 2000 down over 6.00 percent with most of the decline in the DJIA, S&P 500 and NASDAQ indices occurring during the final week in July.

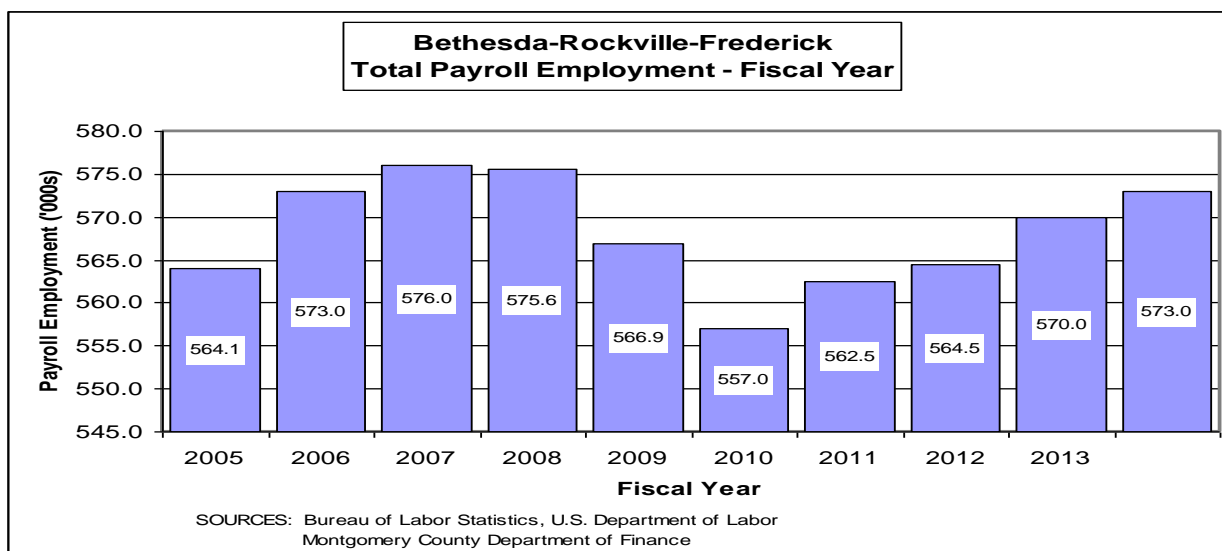
However, with the declines in July, the strength of the stock market since its nadir in March 2009 has been attributed in part to the policies of the Federal Reserve and its asset purchasing program. Since the Federal Reserve began its three “quantitative easing” programs in March 2009, their affect on stock market returns has been significant. For example, starting with the first “quantitative easing” program in March 2009, the DJIA increased over 71 percent until its suspension in April 2010. Starting with the second “quantitative easing” program, the DJIA increased over 24 percent between August 2010 and June 2011. Therefore as the Federal Reserve continues to reduce its asset purchasing program, and the uncertain geopolitical and global financial and economic crises, the stock market may continue to experience periods of volatility from month to month during the calendar year. For example, during the week of July 28th to August 1st, the average close of the volatility index (VIX) was 14.63 and reached an intraday high of 17.57 on August 1st – the largest since April 11th.

REGIONAL ECONOMY

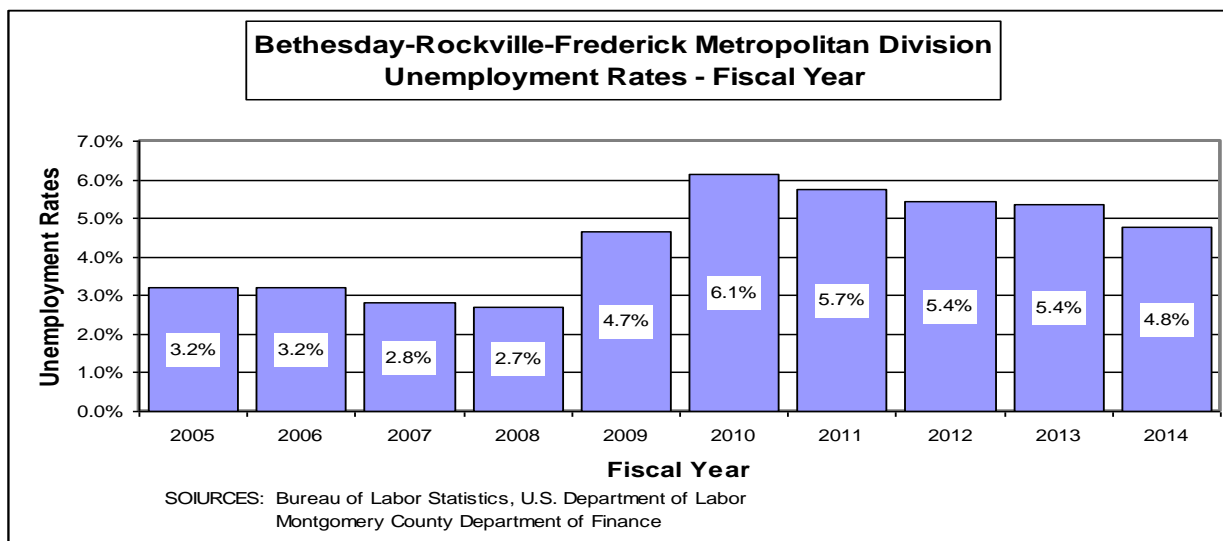
According to the payroll employment data from the Bureau of Labor Statistics, U.S. Department of Labor and based on the survey of establishments, monthly employment in the Washington area averaged 3,101,100 during the second quarter of 2014 – an increase of 0.42 percent from the second quarter of 2013. In fiscal year 2014, employment in the Washington area reached 3,084,800 and increased 0.53 percent from fiscal year 2013.



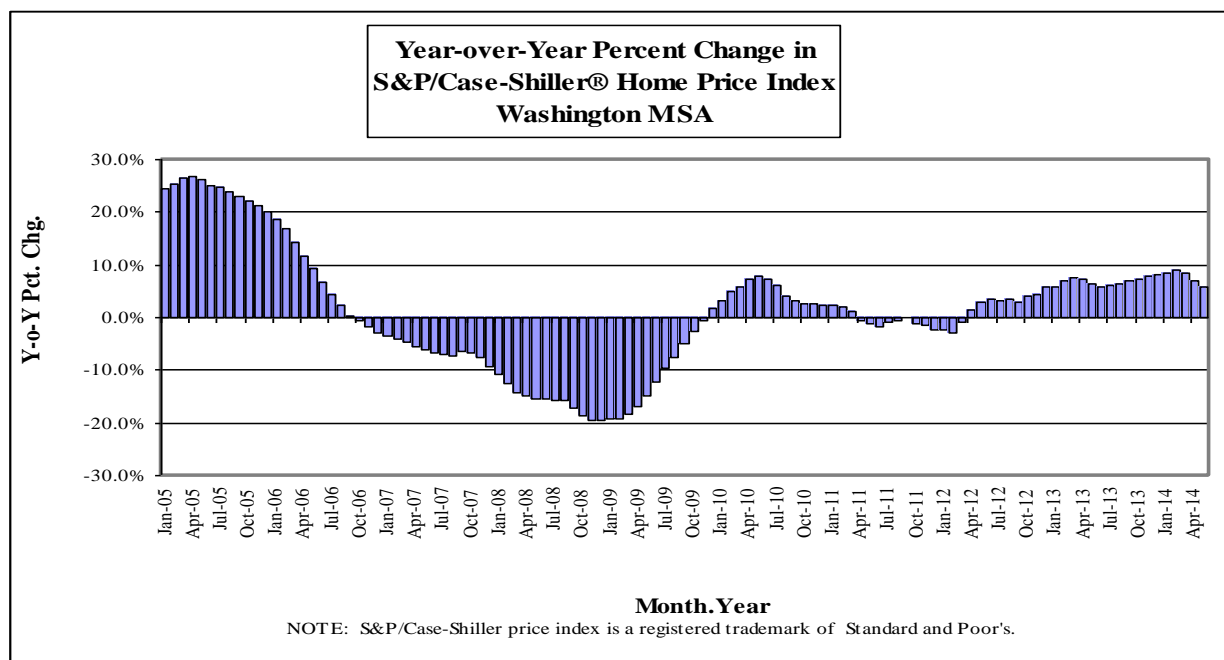
Monthly payroll employment for the Bethesda-Rockville-Frederick (BRF) metropolitan division averaged nearly 576,800 during the second quarter and was slightly above employment in the second quarter of 2013 ($\uparrow 0.41\%$). That rate of growth is nearly the same as the second quarter growth rate for the entire Washington MSA ($\uparrow 0.42\%$). Employment for the metropolitan division increased 0.53 percent from 570,000 in fiscal year 2013 to 573,000 in fiscal year 2014. According to the BLS data, payroll employment in Montgomery and Frederick counties increased 3,000 in fiscal year 2014.



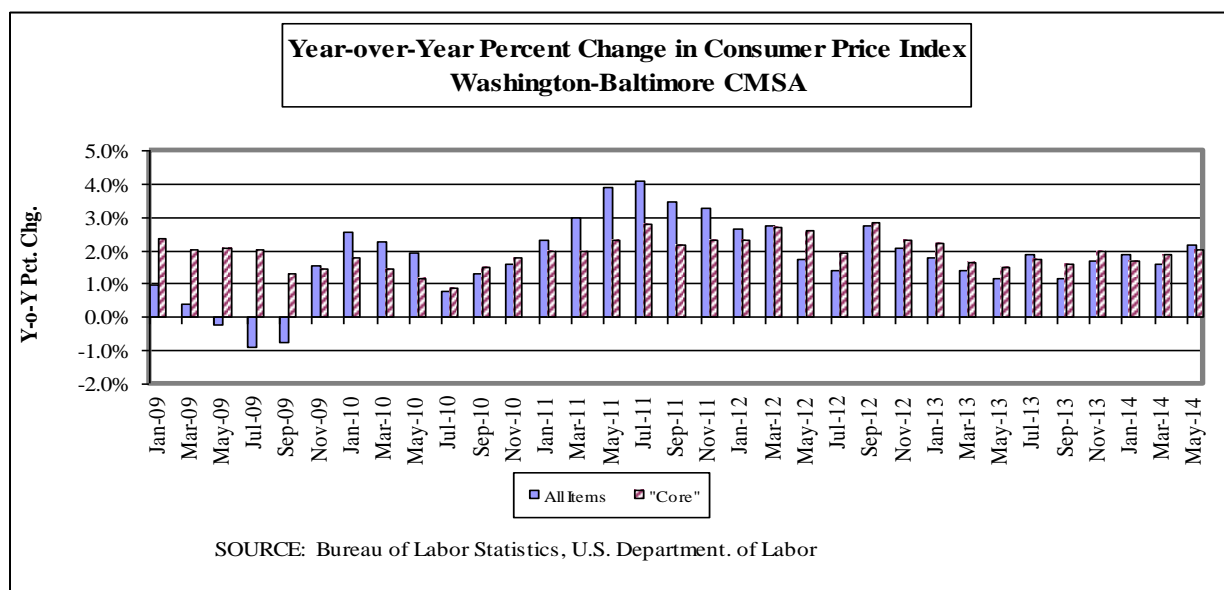
The unemployment rate for the division is either the lowest or one of the lowest among the 34 national metropolitan divisions and the monthly average was 4.6 percent during the second quarter of 2014 – a decrease from the rate of 5.4 percent during the second quarter of 2013. For fiscal year 2014, the unemployment rate was 4.8 percent compared to 5.4 percent in fiscal year 2013.



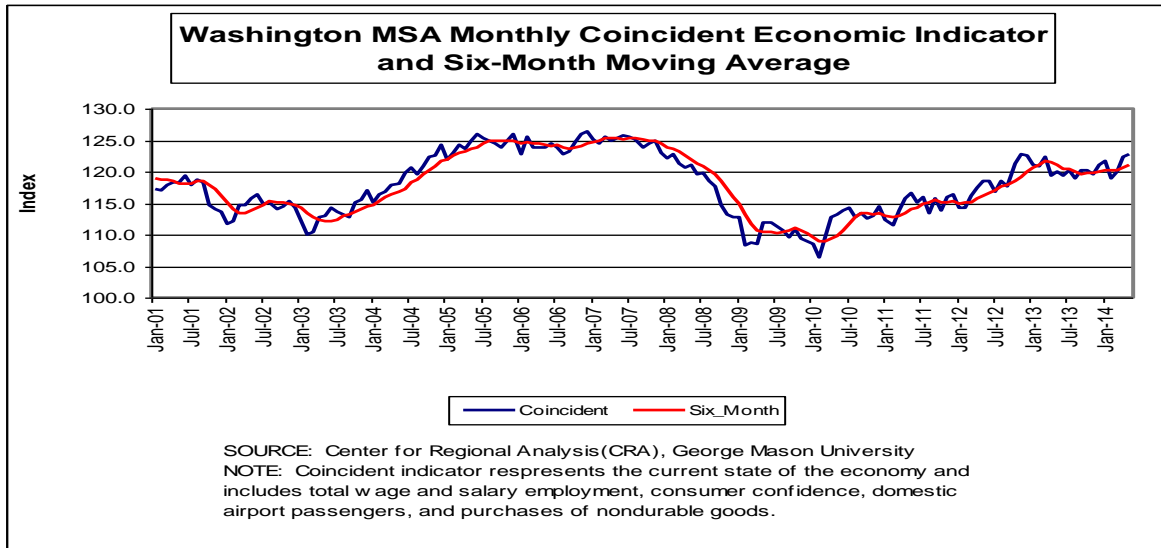
The resale housing market across the region experienced growth in prices, on a year-over-year basis, between May 2013 and May of this calendar year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in May increased 5.8 percent over the twelve-month period.



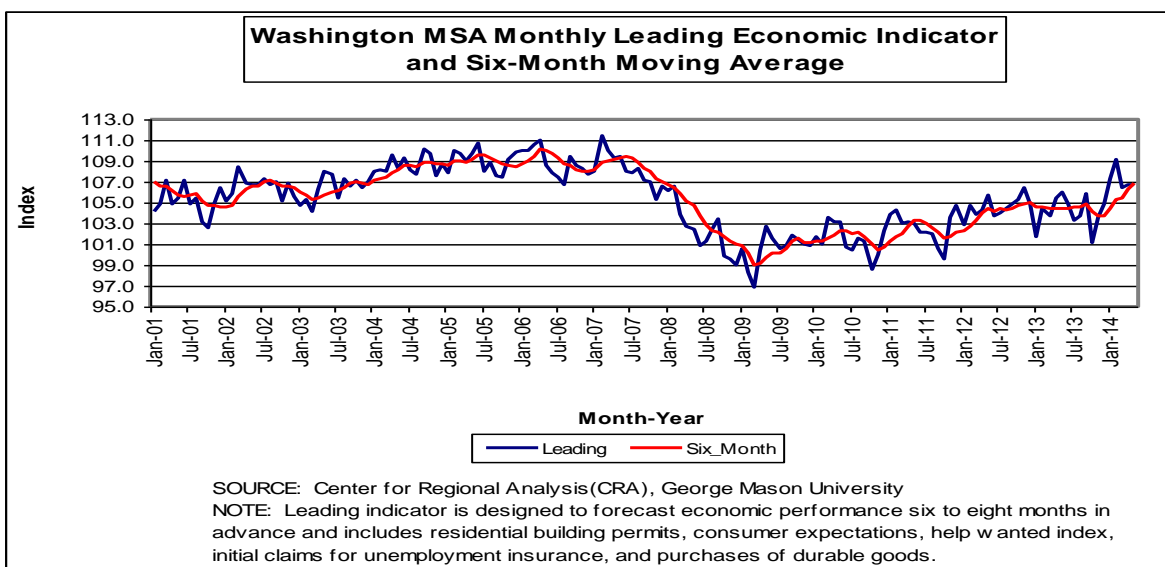
As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased 2.2 percent on a year-over-year basis in May of this year over May 2013. Consumer prices excluding food and energy purchases were up 2.0 percent in the region (on the same year-over-year basis).



According to the Center for Regional Analysis (CRA) at George Mason University, the monthly coincident economic indicator for the Washington metropolitan region increased 0.3 percent from April to May and increased 2.2 percent over May of 2013. The coincident index measures the current performance of the region's economy. Since reaching its lowest point in February 2010, the index increased 15.4 percent through May.



However, while the coincident indicator increased in May, CRA also reported that the leading economic indicator unchanged from April to May but increased at a modest 0.6 percent since May 2013. The leading index measures the economic performance of the region six months ahead. While the index increased 10.1 percent since its lowest level in March 2009, the increase over the one-year period ending in May suggests that the region's economy will grow at a very modest rate over the second half of this year.

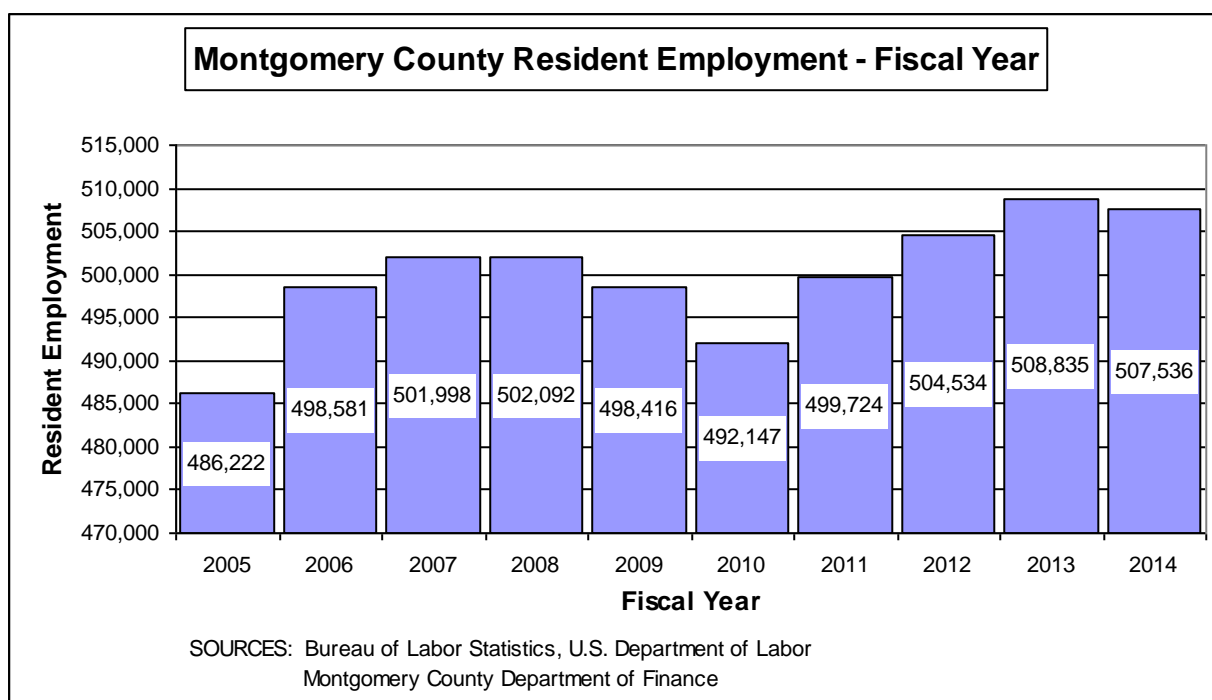


MONTGOMERY COUNTY ECONOMIC INDICATORS

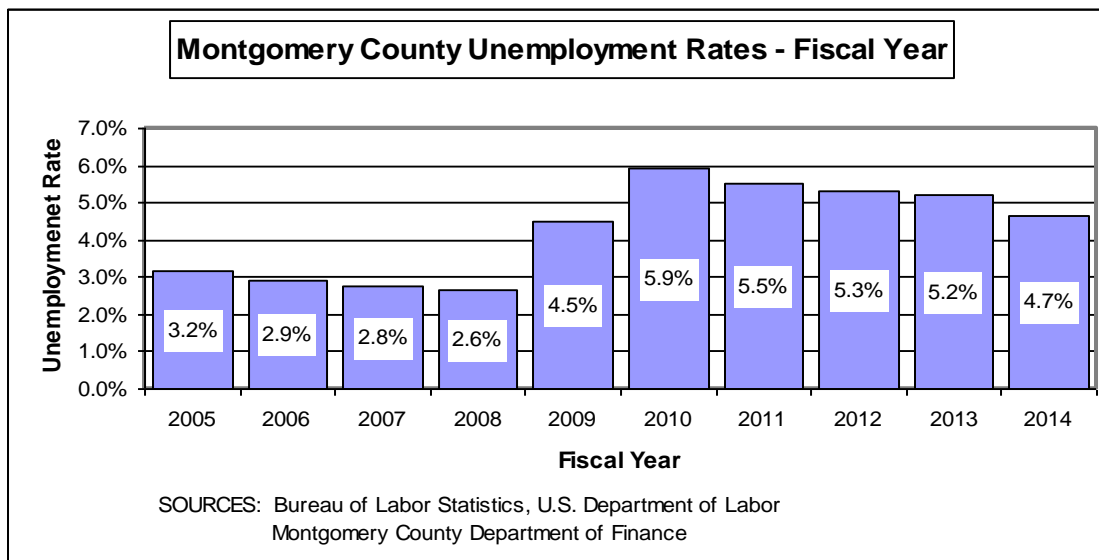
Montgomery County's economy experienced weak economic performance during the second quarter of this year. The reasons for a weak performance include a decline in existing home sales, a decline in median prices for an existing home, a decline in resident employment, and declines in residential and non-residential construction. **Because economic data for the County are not seasonally adjusted, the preferred measure of economic performance for the second quarter is a comparison to the data for the second quarter of 2013 and not the first or previous quarter.**

Employment Situation

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics, U.S. Department of Labor, average monthly resident employment (labor force series and not seasonally adjusted) for the second quarter in Montgomery County decreased nearly 2,700 from the second quarter of 2013 (↓0.5%). On a fiscal year basis, resident employment stood at 507,536 in fiscal year 2014 compared to 508,835 during the previous fiscal year – a decrease of 0.26 percent.

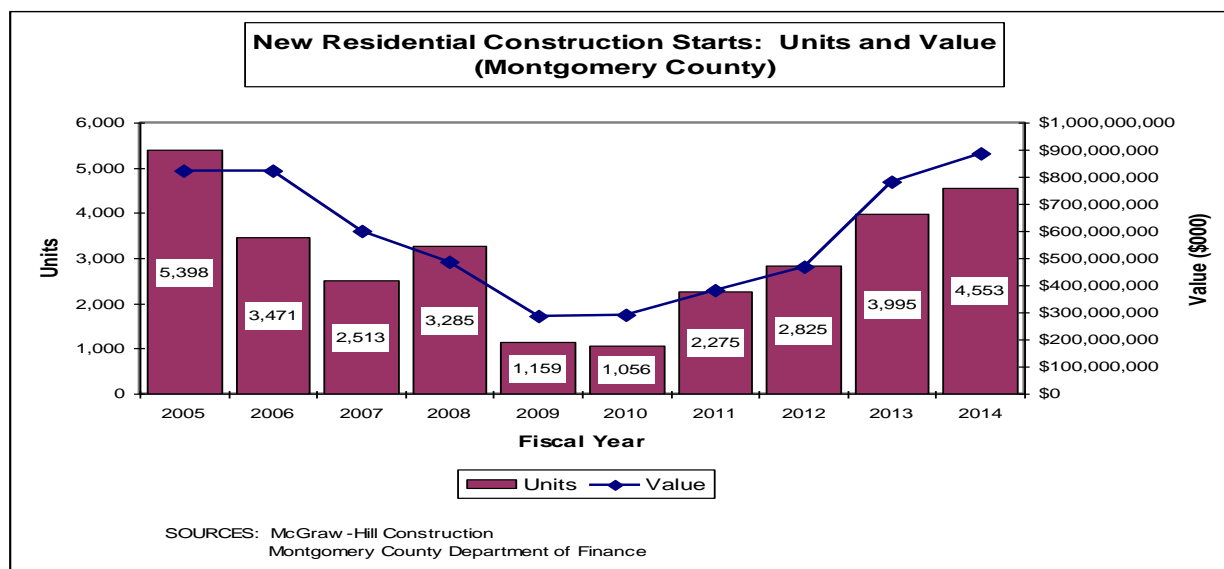


However, the County's average monthly unemployment rate during the second quarter declined to 4.5 percent compared to 5.3 percent in the second quarter of 2013 and declined from 5.2 percent in fiscal year 2013 to 4.7 percent in fiscal year 2014. Throughout fiscal year 2014, the County's unemployment rate remained one of the lowest in the State.



Construction Activity

After experiencing a strong first quarter performance in 2014 over the first quarter of 2013 residential construction experienced a decline during the second quarter from the second quarter of 2013 (↓27.3%). The decrease was attributed to a decline in single-family homes (↓12.4%) and in multi-family units (↓33.6%). However, despite declines in the second quarter, the total number of new construction starts (residential units) increased 5.1 percent during the first half of this year compared to the same period in 2013. Strong residential construction starts during the first half of this calendar year, solely during the first quarter, is attributed to both single-family homes (↑5.5%) and multifamily units (↑3.4%) and added a total value of \$477.3 million in the first half of 2014 and unchanged from the first half of 2013. On a fiscal year basis, the number of new residential construction starts increased nearly 10 percent in fiscal year 2014 and added a total value of nearly \$887 million.

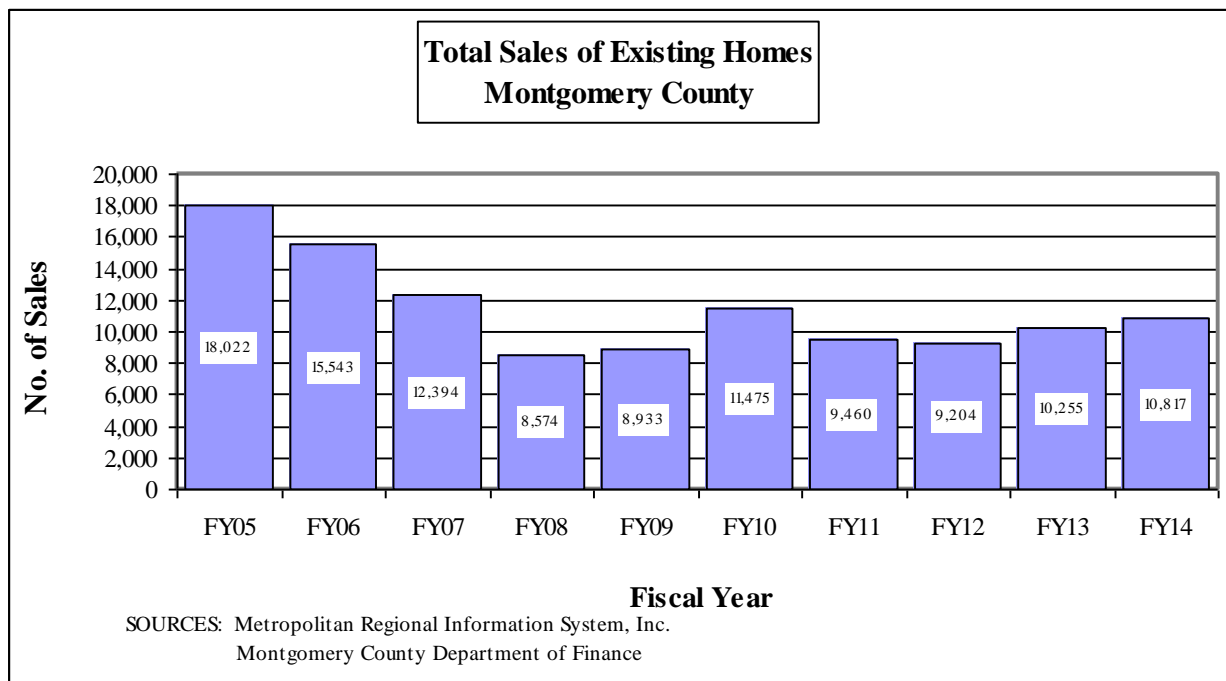


During the second quarter of 2014, the number of non-residential starts (projects) was unchanged from the second quarter of 2013 and the total value decreased from \$205.1 million to \$131.3 million ($\downarrow 36.0\%$). Because of the decline in the value of non-residential projects during the second quarter, construction starts added a total value of only \$184.5 million to the property tax base during the first half of this year – a decrease of 51.1 percent from the same period in 2013. On a fiscal year basis, the number of non-residential projects decreased 29.1 percent and the total added value declined from \$938 million to \$538 million from fiscal year 2013 to fiscal year 2014.

Residential Real Estate

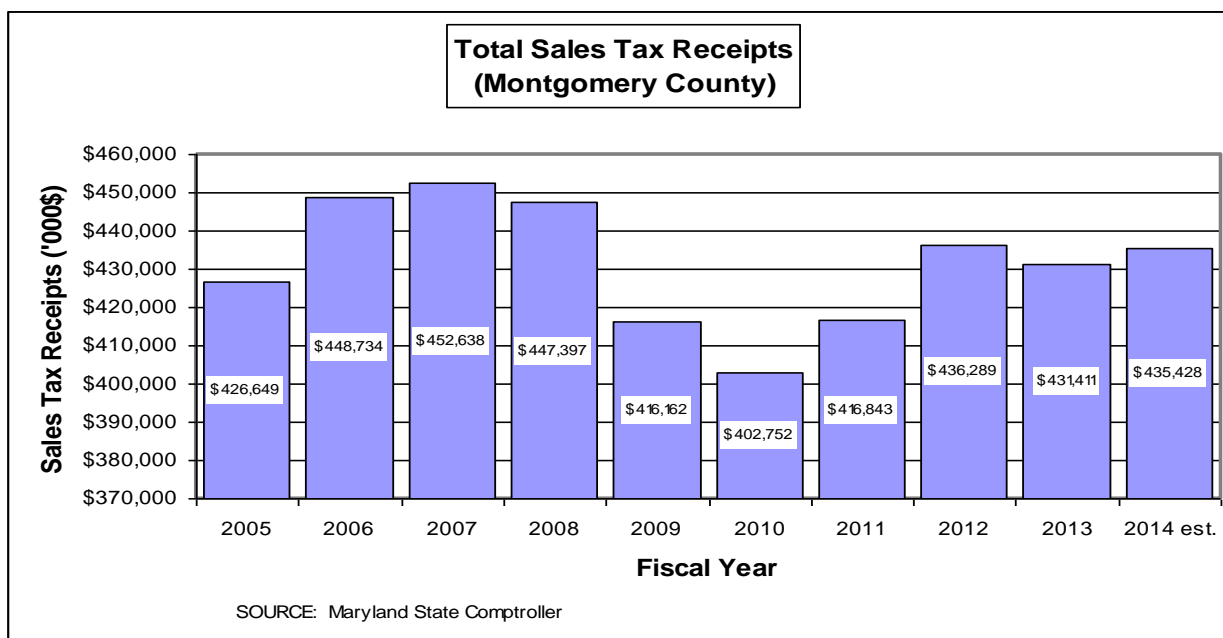
During the second quarter of this year, existing home sales decreased 4.7 percent following increases of 7.9 percent during the first quarter of 2013, 13.3 percent during the second quarter, 22.9 percent during the third quarter of 2013, and 8.2 percent during the fourth quarter of 2013, and a decline of 4.0 percent during the first quarter of 2014. The consecutive decrease during the second quarter after strong growth throughout 2013 can be attributed to rising mortgage interest rates and increases in home prices. Median sales prices for existing homes decreased 0.5 percent during the second quarter compared to the second quarter of last year. Median sales prices have increased the previous seven quarters within a range between 3.4% and 10.4%.

However, despite a weak housing performance during two consecutive quarters, home sales on a fiscal year basis increased 5.5 percent in fiscal year 2014 and the average of the monthly median sales prices for an existing home increase 4.7 percent in fiscal year 2014



Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, sales taxes increased an estimated 0.9 percent during the second quarter of this year. For the first five months of 2014, purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 2.6 percent during this period while sales of durable goods were up a modest 0.1 percent. The increase in nondurable goods purchases was largely attributed to the increase in utilities and transportation (↑8.6%) while the increase in purchases of durable goods was solely attributed to an increase in automobile sales and products (↑3.9%).



CONCLUSION

The major economic indicators confirm that the County's economy experienced weak performance during the second quarter of this year compared to the same period in 2013. Employment measured by the survey of households declined 0.5 percent. Residential construction declined with the construction of single-family homes down 12.4 percent and multi-family units down 33.6 percent. Sales of existing homes and median sales prices decreased 4.7 percent and 0.5 percent, respectively, during the second quarter compared to the second quarter of last year. The overall inflation rate in the region remained subdued and retail sales, particularly for purchases of nondurable goods were up 2.6 percent, and the unemployment rate declined to 4.5 percent from 5.3 percent during the second quarter of last year.

While the data for the second quarter suggest a weak County economy during this period, data on a fiscal year basis suggest that the economy experienced growth from July 2013 to June 2014 particularly in real estate market and residential construction. However, resident employment experienced a decline in fiscal year 2014 based on data from BLS and DLLR. For the first half of 2014, resident employment declined 0.2 percent from the first half of 2013.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2013
				2014	2013	
Leading Indicators						
National	June '14	0.3%		6.3%	0.0%	2.6%
Washington MSA	May '14	0.0%		2.9%	0.0%	-0.5%
Coincident Indicators						
National	June '14	0.2%		2.8%	1.6%	2.1%
Washington MSA	May '14	0.3%		0.3%	4.0%	1.7%
Consumer Confidence Index						
National	July '14	5.2%		17.8%	6.7%	9.2%
South Atlantic Region	July '14	-2.3%		18.8%	9.4%	7.3%
Consumer Sentiment (University of Michigan)	July '14	-0.6%		2.3%	6.1%	3.5%
Consumer Price Index						
All Items (nsa)						
National	June '14	2.1%		1.7%	1.5%	1.5%
Washington - Baltimore CMSA	May '14	2.2%		1.9%	1.5%	1.5%
Core CPI (nsa)						
National	June '14	1.9%		1.8%	1.8%	1.8%
Washington - Baltimore CMSA	May '14	2.0%		1.9%	1.8%	1.8%
Retail Trade						
National (sales - nsa)	June '14	4.3%		3.6%	3.5%	3.3%
Maryland (sales tax)(1)	May '14	5.4%		1.3%	1.1%	1.8%
Montgomery County (sales tax)(1)	May '14	4.9%		0.8%	-0.3%	0.2%
Employment						
Maryland (labor force data - nsa)	June '14	2,940,867	2,939,027	2,920,382	2,914,547	2,921,931
- Percent Change		0.1%		0.2%		0.4%
Bethesda-Frederick-Gaithersburg (labor force data)	June '14	629,354	633,570	627,465	629,017	629,684
- Percent Change		-0.7%		-0.2%		0.2%
Montgomery County (labor force data)	June '14	507,923	511,326	506,399	507,651	508,190
- Percent Change		-0.7%		-0.2%		0.2%
Montgomery County (QCEW)	Dec. '13	454,937	457,131	451,809	450,880	450,880
- Percent Change		-0.5%		0.2%		0.7%
Unemployment						
Maryland (nsa)	June '14	6.2%	7.1%	5.9%	6.9%	6.6%
Bethesda-Frederick-Gaithersburg (nsa)	June '14	5.1%	5.9%	4.6%	5.4%	5.2%
Montgomery County (nsa)	June '14	5.0%	5.8%	4.5%	5.3%	5.1%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousands)	June '14	\$143,285	\$186,513	\$661,762	\$854,583	\$1,595,054
- Percent Change		-23.2%		-22.6%		20.2%
Residential (\$ thousands)	June '14	\$92,788	\$81,835	\$477,297	\$477,082	\$823,039
- Percent Change		13.4%		0.0%		58.7%
Non-Residential (\$ thousands)	June '14	\$50,497	\$104,678	\$184,465	\$377,501	\$772,015
- Percent Change		-51.8%		-51.1%		-4.5%
Building Permits (Residential)						
Maryland	June '14	1,429	1,930	8,223	8,850	18,138
- Percent Change		-26.0%		-7.1%		23.8%
Montgomery County (units)	June '14	188	427	2,461	1,725	3,514
- Percent Change		-56.0%		42.7%		-10.9%
Building Permits (Non-Residential)						
Montgomery County	June '14	178	187	897	1,071	2,060
- Percent Change		-4.8%		-16.2%		-6.3%
Construction Cost Index						
Baltimore	July '14	6,909.27	6,895.79	6,920.20	6,952.93	6,935.72
		0.2%		-0.5%		5.2%
Real Estate						
Case-Shiller Home Price Index®						
	May '14	209.61	198.04	205.92	191.17	198.40
		5.8%		7.7%		6.9%
Maryland						
Sales	June '14	6,591	6,421	28,745	28,991	63,556
- Percent Change		2.6%		-0.8%		12.4%
Median Price	June '14	\$284,553	\$285,262	\$256,322	\$250,852	\$261,153
- Percent Change		-0.2%		2.2%		6.6%
Montgomery County						
Sales	June '14	1,260	1,250	5,063	5,297	11,406
- Percent Change		0.8%		-4.4%		13.0%
Average Price	June '14	\$521,323	\$541,667	\$501,103	\$486,746	\$500,316
- Percent Change		-3.8%		2.9%		7.5%
Median Price	June '14	\$415,000	\$430,000	\$395,167	\$390,008	\$400,000
- Percent Change		-3.5%		1.3%		9.0%
Average Days on the Market	June '14	38	33	49	52	46

NOTES:

(nsa): not seasonally adjusted

(QCEW): Quarterly Census of Employment and Wages

(saar): seasonally adjusted at annual rate

(1): Data include miscellaneous and assessment collections.

(n.m.): not meaningful